# STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS

# DELAWARE PSYCHIATRIC CENTER

**OVERTIME** 

PERFORMANCE AUDIT

**FISCAL YEAR 2007** 

FIELDWORK END DATE: OCTOBER 25, 2007

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# **EXECUTIVE SUMMARY**

### **BACKGROUND**

In recent months, numerous concerns have been raised to the Office of Auditor of Accounts (AOA) relative to the amount of overtime paid to employees in certain agencies. AOA decided to perform an economy and efficiency examination on a Statewide basis to determine if agencies had sufficient controls in place to monitor overtime being paid; if overtime costs were justified; if overtime costs were accurately recorded both in the State's accounting system, Delaware Financial Management System (DFMS), and in the State's payroll system, Payroll Human Resources Statewide Technology (PHRST); and whether alternatives were available that would provide the necessary services without the excessive overtime payments.

The scope of this audit includes overtime payments made to State employees for Fiscal Year 2007 who worked in the Department of Health and Social Services, Delaware Psychiatric Center (DPC). DPC paid a total of \$4,599,021.85 in overtime payments during Fiscal Year 2007.

### AUDIT CONCLUSIONS AND OBSERVATIONS

Determine if the agency had sufficient controls in place to monitor overtime being paid.

DPC did not have sufficient controls in place to monitor overtime being paid. A total of 532.5 hours, or \$21,858 in overtime costs, were not authorized with written supervisory approval. Exception reports and Overtime Approval Sheets were not consistently approved and, in some instances, employees could not be located on Roll Call Sheets for overtime shifts worked.

Determine if overtime costs were justified, and supported by appropriate documentation and records.

Overtime costs appeared to be justified and supported by appropriate documentation and records. However, we noted that adjustments made to employee timecards did not match corresponding exception reports, exception reports and Overtime Approval Sheets were not consistently approved, and, in some instances, employees could not be located on Roll Call Sheets for overtime shifts worked.

Determine if overtime costs were accurately recorded in DFMS and PHRST.

Overtime costs were accurately recorded in DFMS and PHRST; however, overtime was not properly calculated for two out of ten employees tested. In addition, vacation and sick leave balances were not properly reduced for four out of ten employees tested.

Determine if alternatives to overtime were available.

Overtime shifts were assigned based on projected need in order to fulfill Medicare and Medicaid staffing level requirements. The primary alternative to overtime would be to fill the 99 vacant positions; however, this may not be feasible with the current shortage of nursing professionals and current State budgetary restrictions.

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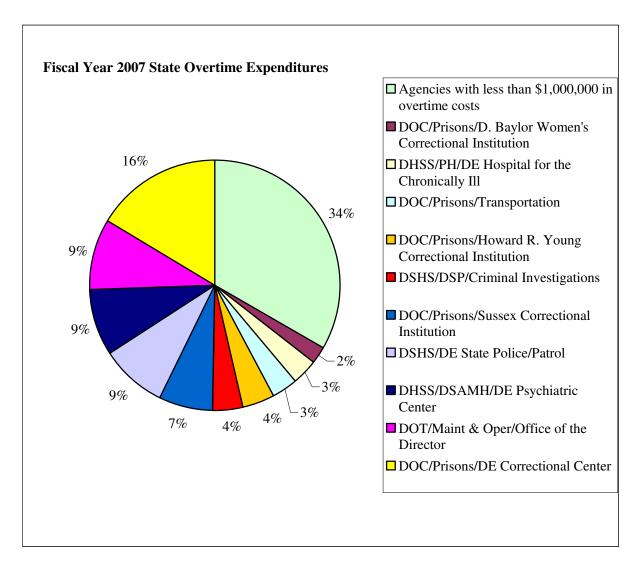
# AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants, which has issued generally accepted auditing standards, and the U.S. General Accountability Office, which has issued generally accepted government auditing standards.

# BACKGROUND

In recent months, numerous concerns have been raised to the Office of Auditor of Accounts (AOA) relative to the amount of overtime paid to employees in certain agencies. AOA decided to perform an economy and efficiency examination on a Statewide basis to determine if agencies had sufficient controls in place to monitor overtime being paid; if overtime costs were justified; if overtime costs were accurately recorded both in the State's accounting system (DFMS) and in the State's payroll system (PHRST); and whether alternatives were available that would provide the necessary services without the excessive overtime payments.

The following pie chart illustrates the percentage of overtime costs attributable to each agency for Fiscal Year 2007. The Delaware Psychiatric Center accounts for 9 percent of the State of Delaware's overtime costs.

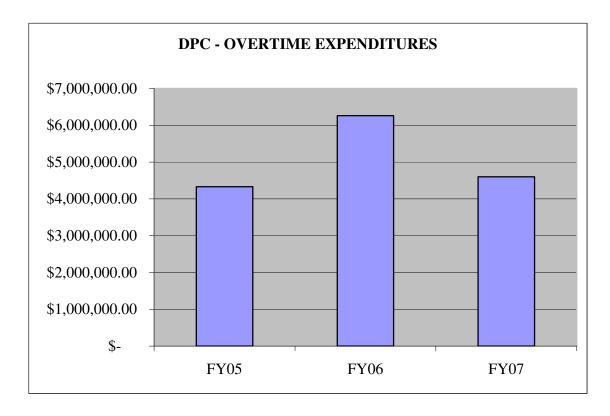


# BACKGROUND

The Delaware Division of Substance Abuse and Mental Health (DSAMH) is a division within the Department of Health and Social Services (DHSS). DSAMH serves the adult population (age 18 and older) in need of publicly funded behavioral health services. DSAMH operates the Delaware Psychiatric Center (DPC), Delaware's only state-operated psychiatric hospital for adults, which is located on the Herman M. Holloway, Sr. Campus in New Castle, Delaware.

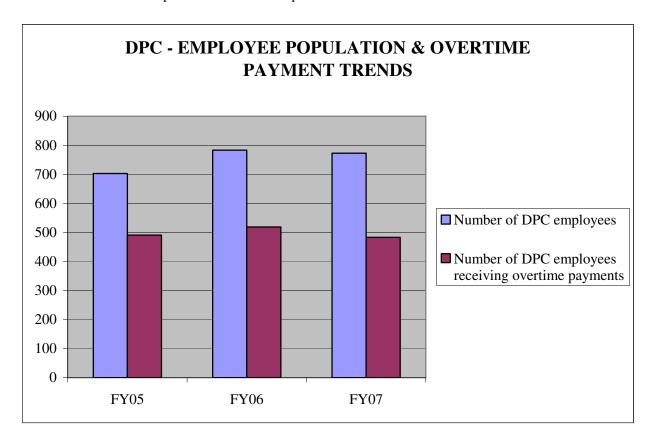
DPC's mission is to improve the quality of life for Delaware's mental health consumers through evaluation, treatment, and rehabilitation so that they may achieve their highest possible level of independent functioning. DPC provides psychiatric evaluation, diagnosis, and inpatient treatment to approximately 250 patients. This population consists of forensics (prisoners), nursing home residents, and individuals preparing for transition to a community setting. DPC's patient population has been declining in recent years due to new community programs, transitioning patients to other less restrictive and more appropriate settings, and a decline in admissions. There were 1,236 admissions in Fiscal Year 1999, but only 402 in Fiscal Year 2007.

Despite the declining population and admissions, DPC's overtime costs have grown from \$4,328,514 in Fiscal Year 2005 to \$6,259,403 in Fiscal Year 2006 and \$4,597,903 in Fiscal Year 2007.



# BACKGROUND

In addition, DPC's employee population and number of employees receiving overtime payments have mirrored the overtime expenditures trend as depicted in the chart below.



Many factors contribute to DPC's overtime costs. DPC is accredited by the Joint Commission, a non-profit organization with the responsibility to maintain and elevate the standards of healthcare delivery through the evaluation and accreditation of healthcare organizations. Accredited organizations are deemed to meet the Medicare and Medicaid certification requirements necessary for gaining reimbursement from Medicare and managed care organizations. In order to maintain accreditation, DPC must maintain adequate staffing levels on all shifts. In addition, DPC and other long-term care facilities are faced with a nationwide shortage of nurses. According to a report released by the American Hospital Association in April 2006 titled *The State of America's Hospitals – Taking the Pulse*, U.S. hospitals need approximately 118,000 registered nurses (RNs) to fill vacant positions nationwide. This translates into a national RN vacancy rate of 8.5%. Of DPC's 565.2 total nursing positions, 99 or 17.5%, are vacant as of the end of Fiscal Year 2007. As a result of significant vacancies, overtime is utilized by DPC to maintain required staffing levels for all shifts.

# OBJECTIVES, SCOPE, & METHODOLOGY

### **OBJECTIVES**

- 1. Determine if the agency had sufficient controls in place to monitor overtime being paid.
- 2. Determine if overtime costs were justified, and supported by appropriate documentation and records.
- 3. Determine if overtime costs were accurately recorded in DFMS and PHRST.
- 4. Determine if alternatives to overtime were available.

### **SCOPE**

The scope of this audit includes overtime payments made to State employees for Fiscal Year 2007 who worked in the Department of Health and Social Services, Delaware Psychiatric Center. DPC paid a total of \$4,599,021.85 in overtime payments during Fiscal Year 2007.

### **METHODOLOGY**

The audit was performed in accordance with Government Auditing Standards applicable to performance audits issued by the Comptroller General of the United States.

Audit procedures consisted of the following:

- Reviewed laws and regulations regarding the proper method of recording/coding overtime pay as it pertains to different classes of State employees, etc.
- Reviewed employee files and time records to ensure overtime is supported by appropriate documentation and records and that employee records agree to related DFMS and PHRST system reports.
- Recalculated overtime hours and payments to determine if any over/under payments of overtime were made in Fiscal Year 2007.
- Interviewed appropriate officials at DPC to gain an understanding of overtime policies and procedures.
- Review of DFMS and PHRST system reports to verify accurate recording of overtime expenditures.

The criteria used in this performance audit consisted of the following:

- State of Delaware Merit Rules.
- Committee of Sponsoring Organizations (COSO) of the Treadway Commission's report, <u>Internal Control – Integrated Framework</u> (COSO Framework).
- Departmental policies and procedures regarding overtime.

# **CONCLUSIONS**

Determine if the agency had sufficient controls in place to monitor overtime being paid.

DPC did not have sufficient controls in place to monitor overtime being paid. A total of 532.5 hours, or \$21,858 in overtime costs, were not authorized with written supervisory approval. Exception reports and Overtime Approval Sheets were not consistently approved and, in some instances, employees could not be located on Roll Call Sheets for overtime shifts worked.

Determine if overtime costs were justified, and supported by appropriate documentation and records.

Overtime costs appeared to be justified and supported by appropriate documentation and records. However, we noted that adjustments made to employee timecards did not match corresponding exception reports, exception reports and Overtime Approval Sheets were not consistently approved, and, in some instances, employees could not be located on Roll Call Sheets for overtime shifts worked.

Determine if overtime costs were accurately recorded in DFMS and PHRST.

Overtime costs were accurately recorded in DFMS and PHRST; however, overtime was not properly calculated for two out of ten employees tested. In addition, vacation and sick leave balances were not properly reduced for four out of ten employees tested.

Determine if alternatives to overtime were available.

Overtime shifts were assigned based on projected need in order to fulfill Medicare and Medicaid staffing level requirements. The primary alternative to overtime would be to fill the 99 vacant positions; however, this may not be feasible with the current shortage of nursing professionals and current State budgetary restrictions.

### Finding #1: Overtime approval for badging-in early/out late

### Criteria

DPC Policy HR2 states, "Employees may badge-in within fifteen (15) minutes prior to their shift. Employees who badge-in prior to the start of their shift will only be paid from the start of their shift unless prior supervisory approval has been received...Employees can badge-out for the day within seven (7) minutes after the end of their shift. The only exception to this policy will be for employees that have the approval of their Supervisor to work additional time."

### Condition

Overtime without supervisory approval was incurred in 26 out of 26 pay periods during Fiscal Year 2007.

We noted that two out of ten employees selected for testwork earned 532.5 hours, or \$21,858, of overtime without written supervisory approval, as a result of badging-in early and badging-out late for shifts.

### Cause

Written supervisory review and pre-approval of overtime hours is not being consistently enforced and maintained.

### Effect

DPC paid out 532.5 hours, or \$21,858, in overtime payments to employees who should not have received pay.

### Recommendation:

DPC require and retain written documentation denoting supervisor approval of overtime prior to the overtime hours being incurred.

### Auditee Response

As of November 12, 2007, the practice of the Timekeeping Department accepting verbal approvals for employee overtime hours is prohibited. Overtime approval must be submitted, in writing, by the employee's immediate supervisor with an explanation that demonstrates the overtime worked was necessary to maintain the care and safety of staff and patients. Any overtime hours worked without written approval will be denied and not processed for payment.

All supervisors were informed of the change in practice by the Timekeeping Supervisor on November 12, 2007. The Timekeeping Department is responsible for enforcing this change in practice by not processing overtime hours submitted without written approval, regardless of verbal confirmation and timecard documentation.

To memorialize this change in practice, a formal policy memorandum is being drafted and will be finalized by November 30, 2007.

### Finding #2: HRMS not updated for vacation/sick hours taken

### Criteria

DPC Policy HR 2 states, "...employees must review and approve quarterly leave audits...Employees are responsible for checking their paycheck for accuracy and for maintaining an account of their leave time...(It is the Timekeepers' responsibility to) maintain record of leave balances."

### Condition

DPC utilizes the Human Resource Management System (HRMS) to track employee vacation and sick leave balances.

For four out of ten employees tested, we noted the following instances where vacation and/or sick leave balances were not properly reduced in HRMS for leave taken:

- For two employees, vacation time was erroneously reduced by a total of 22.50 hours instead of sick time.
- For two employees, a total of 168.00 vacation hours and 7.5 sick hours used were not properly recorded in HRMS, causing an overstatement in the employee's vacation and sick leave balances.

### Cause

DPC management and employees do not review or reconcile leave balances to ensure accuracy in the amounts reported.

### Effect

Failure to maintain accurate leave balances could result in overpayment of employee salaries.

### Recommendation:

DPC should provide training to employees on maintaining their own account of leave balances in accordance with DPC Policy HR2.

In addition, DPC should ensure that timecards and HRMS are adequately reviewed and reconciled on a periodic basis to identify errors or omissions of leave time used.

### Auditee Response

On November 20, 2007, all managers were instructed to remind staff of their responsibilities with respect to monitoring their own leave time, as dictated by DPC Policy HR2.

On November 7, 2007, the quarterly reconciliation of KRONOS & HRMS was assigned to a dedicated employee. This employee will also have the responsibility of daily verification of requested employee leave time to ensure that the leave time requested is available in the system. Reassigning this responsibility to one employee, in one department, will significantly reduce the potential for missed entries.

### Finding #3: Overpayment of overtime due to hours "Docked" from regular earnings

### Criteria

State of Delaware Merit Rule 4.13.1 states, "FLSA-covered employees with a standard work week of 37.5 hours who are authorized to perform overtime service shall be paid at 1.5 times their regular rate for each hour worked after 37.5 hours per week."

### Condition

An employee's hours may be docked for situations when the employee does not have a sufficient accumulated leave time balance available or when the employee has been suspended without pay.

We noted that two out of ten employees tested had hours docked from their paychecks during Fiscal Year 2007. However, the docked hours were applied to the employees' regular hours without any adjustment first being made to reduce overtime hours. These employees were paid overtime without first earning 37.5 regular hours per week as required by Merit Rule 4.13.1 for the following 9 out of 26 pay periods in Fiscal Year 2007, resulting in overpayments of \$543: 8/19/2006, 9/2/2006, 10/28/2006, 11/25/2006, 12/9/2006, 1/6/2007, 2/17/2007, 3/31/2007, and 6/23/2007.

### Cause

DPC management does not review employee timecards or related supporting documentation to ensure propriety or compliance with State Merit Rules and DPC internal control policies and procedures.

### Effect

DPC is not in compliance with State of Delaware Merit Rule 4.13.1 for the instances noted above.

### Recommendation:

DPC should institute policies and procedures for management review to ensure that employees are paid for 37.5 hours per week at their regular rate before being paid additional compensation for overtime.

### Auditee Response

29 CFR 778.601 – Special overtime provisions available for hospital and residential care establishments under section 7 (j), allows for an exemption from the requirement that overtime compensation be computed on a workweek basis. Hospitals or residential care establishments are permitted to establish a 14-day period for the purposes of overtime compensation. Section 778.601(d) indicates that employers opting to establish a 14-day work period are not required to compute overtime pay on a workweek basis "so long as the employee receives overtime compensation at a rate not less than one and one-half times his regular rate of pay for his employment in excess of 8 hours in any workday and in excess of 80 hours in such 14-day period". DHSS compensates merit employees based on a 7.5 hour day or 75 hour 14-day period rather than 8 hours or 80 hours. DPC is considered a hospital; therefore, is permitted to calculate overtime in accordance with this regulation.

### **Auditor Comment**

We recalculated the pay periods in question and applied the special overtime provision as described in 29 CFR 778.601 above. Discrepancies were still noted for pay periods 8/19/2006, 9/2/2006, 11/25/2006, and 6/23/2007 resulting in overpayments of \$185.58. DPC should institute policies and procedures for management review to ensure that employees are paid in accordance with applicable regulations and State Merit Rules.

### Finding #4: Exception reports do not match timesheets and are not properly approved

### Criteria

The Kronos timekeeping system generates daily exception reports for the following two conditions:

- employees who work when not scheduled, and
- employees who do not work when scheduled.

DPC Policy HR 2 states, "The supervisor will review and verify the exception reports based on supporting documentation for overtime, compensation time, docking, sick leave, vacation, etc. The review will be documented by the supervisor initialing each exception."

Supervisor review and approval of exception reports is required before any edits may be made to employee timecards.

### Condition

Adjustments made to employee timecards did not match the corresponding exception reports for 26 out of the 26 pay periods selected for testing.

In addition, exception reports were not consistently approved, as noted by the supervisor's initials next to each exception.

### Cause

Supervisors are not consistently performing and documenting review of exception reports, based on supporting documentation for overtime, compensation time, docking, sick leave, vacation, etc., as required by DPC Policy HR2.

### Effect

DPC is not in compliance with their own internal control policies and procedures regarding Attendance and Timekeeping (Policy HR2).

Lack of adequate supporting documentation and evidence of approval could result in improper payment of overtime hours.

### **Recommendation:**

DPC should ensure that adequate supporting documentation is maintained for all adjustments to employee timecards.

In addition, DPC should ensure that all exception reports are properly reviewed and approved, as documented by supervisor initials, in accordance with DPC internal control policies and procedures.

### Auditee Response

On November 14, 2007, all DPC timekeeping documentation was relocated to the Timekeeping Department's central wing. Storage capacity was increased to accommodate this change. The centralized filing of timekeeping source documents allows for easier reconciliation of timekeeping system information for extended periods of time.

On November 12, 2007, all DPC managers were notified that timekeeping exception reports would not be accepted unless the supervisor signs each individual exception. If the supervisor fails to sign an individual exception, the report will be returned to the supervisor for correction. An audit on November 26, 2007 revealed 100% compliance by signing supervisors with this new standard.

To memorialize this change in practice, a formal policy memorandum is being drafted and will be finalized by November 30, 2007.

### Finding #5: Overtime not properly approved

### Criteria

DPC is mandated by Medicare and Medicaid regulations to maintain specific staffing levels according to the number and needs of the patients in DPC's care. Since the population of patients varies daily, constant monitoring is necessary to ensure adequate staffing levels on all shifts.

DPC supervisors develop monthly staff work schedules, using employee Overtime Request Sheets to assign available overtime shifts.

The schedule (Roll Call Sheet) is printed daily for attendance recordkeeping purposes and details which unit and shift each employee is assigned to for the corresponding day. Overtime Approval Sheets are used each day to credit employees not taking a meal break or working extra hours after the end of their shift.

DPC Policy HR 2 defines overtime as, "Hours worked in excess of regularly scheduled hours authorized in advance by the Supervisor."

### **Condition**

While verifying employee timecards against Roll Call and Overtime Approval Sheets, we noted that 26 out of 26 pay periods tested included shifts or additional time paid that could not be located on Roll Call Sheets or did not have proper approval noted on Overtime Approval Sheets.

The Nursing Supervisor of each shift reviews the Roll Call sheet to ensure staff is assigned to the units in order to maintain the required staffing levels; however, this review is not documented.

### Cause

DPC is not performing a three-way reconciliation of employee timecards, Roll Call Sheets, and Overtime Approval Sheets to ensure the accuracy and propriety of time reported by and paid to DPC employees.

DPC is not consistently approving overtime hours on Overtime Approval Sheets, in accordance with DPC policies and procedures.

### **Effect**

Failure to perform a three-way reconciliation could result in oversight or delays in identification and resolution of errors, as well as inaccurate time records for DPC staff.

Effective internal control procedures include written or electronic documentation of review to provide reasonable assurance that a review was performed and errors detected were promptly corrected. Lack of this type of documentation could result in untimely identification and resolution of errors.

Lack of evidence of approval could result in improper payment of overtime hours.

### Recommendation:

DPC should perform a three-way reconciliation of employee timecards, Roll Call Sheets, and Overtime Approval Sheets on a periodic basis to ensure the accuracy and propriety of time reported by and paid to DPC employees.

In addition, internal control policies and procedures should be implemented to ensure that management review and approval of staffing levels is appropriately documented. Documentation to evidence review and approval of staffing level reports should include the reviewer's signature, date of review, and notes regarding resolution of exceptions (if any).

DPC should also ensure that all overtime is approved and authorized, as documented by Overtime Approval Sheets and supervisor signature, prior to being paid and incurred.

### Auditee Response

On November 7, 2007, DPC administration assigned the task of performing monthly three-way audits of timecards, roll call sheets, & overtime approval sheets, to a dedicated employee. This task and the reconciliation of KRONOS and HRMS have become the employee's top priorities.

DPC Nurse Supervisors have been reeducated on the procedures for approving and documenting staff overtime and attendance. Nurse supervisors were also reeducated on the proper use of the facility's overtime approval sheets.

To memorialize this reeducation to the nursing management staff, a memorandum will be issued to the Nursing Department by November 30, 2007.

# DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

### Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Richard S. Cordrey, Secretary, Department of Finance
The Honorable Jennifer W. Davis, Director, Office of Management and Budget
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance

### **Legislative**

The Honorable Russell T. Larson, Controller General, Office of the Controller General

### Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

### Other

The Honorable Vincent P. Meconi, Secretary, Department of Health and Social Services Ms. Renata Henry, Director, Division of Substance Abuse and Mental Health, Department of Health and Social Services

Ms. Valencia Beaty, Director, Division of Management Services, Department of Health and Social Services

Ms. Melody Lasana, Controller, Division of Management Services, Department of Health and Social Services